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SUBJECT: LOCAL AUTO INDUSTRY HIT HARD BY ECONOMIC CRISIS

¶1. (SBU) Summary. The economic crisis has severely disrupted the auto industry in the St. Petersburg region, with all manufacturers having sharply curtailed production over the past several months. A key part of the regional economy, the auto industry has endured a series of production halts and work furloughs at various foreign-owned auto manufacturing plants in St. Petersburg and Leningrad oblast that call into question the longer-term prospects for developing a robust automotive production sector here. End Summary.

¶2. (SBU) Over the last several years car manufacturing has become an important component of the regional economy. There are four main manufacturing plants in the region: Ford (which has a production capacity of 125,000 cars annually); GM (70,000); Toyota (20,000); and Nissan (50,000). All of these plants were built with the support of the respective local government administrations who expected a rapid expansion in the Russian car market.

¶3. (U) Contrary to earlier expectations that consumer demand for new cars would continue to grow, the first six months of 2009 saw a marked slump in sales of new cars in the Russian automobile market. According to the Association of European Business (an independent non-commercial association of European entrepreneurs who work in Russia), the year over year decline in sales has grown progressively worse throughout the year, with sales dropping 38% in February; 47% in March; 53% in April; 58% in May; and 56% in June.

¶4. (SBU) The national downturn has negatively affected the auto manufacturing industry in St. Petersburg and Leningrad oblasts, as reflected in a steady barrage of press accounts detailing the industry's troubles. There has been a series of production halts and slowdowns at all of the region's auto manufacturing plants, with GM, among others, halting production at its newly-opened St. Petersburg factory for two months, from early July through August 31. Toyota recently put its staff on mandatory leave for two weeks.

¶5. (SBU) Ford introduced a four-day work week on June 6, and announced plans to eliminate its third shift. The company completely halted production on July 1 for ten days. It briefly resumed normal operations, but completely halted production again on July 20 for three weeks. The plant has since resumed normal operations, but Ford plans to again return to a four-day work week in October, with the new work schedule likely to last through February, 2010.

¶6. (SBU) Nissan announced its plans to completely halt production from August 3 through August 16, during which time its workers will be on annual leave. Nissan's actions starkly show how unexpected the downturn in the auto market was, as its plant only opened on June 2.

¶7. (SBU) Suzuki responded to the economic downturn in late July by cancelling the planned construction of a 30,000 cars/year capacity automobile plant that was to have been located in St. Petersburg. Construction had not yet begun on the plant when Suzuki cancelled the lease agreement it had made with the city for the land on which the plant would be built.

¶8. (SBU) Hyundai, like Suzuki, also had plans to build a new

plant in St. Petersburg when the crisis hit. Unlike Suzuki, though, Hyundai had already begun construction of its plant prior to the downturn. Construction began in June 2008 and the plant is expected to be operational by December 2010, with a production capacity of 100,000 cars a year. In a recent interview with the local press, the Managing Director of Hyundai Motors CIS confirmed that construction is progressing in accordance with the original timeline, that the company does not intend to change its plans, and that Hyundai is hopeful for a turnaround in the Russian auto market.

¶9. (SBU) Overall, the automobile manufacturers in St. Petersburg produced only 7,000 cars during first half of 2009: 4,400 at GM (73% less than in 2008), 2,400 at Toyota (61% less), and 200 at Nissan. These figures are far lower than the expectations the city government had last year for production of 47,000 thousand cars in 2009. Ford, which is located in Leningrad oblast just outside the city, has seen its production drop by about 40% this year, with its plant producing just 25,000 cars in the first six months of this year, compared to an initial production plan calling for 83,000 automobiles to be produced in all of 2009.

¶10. (SBU) Comment. Turning St. Petersburg into a "Russian Detroit" had been one of the top priorities for Governor Valentina Matviyenko's administration. However, our local expert contacts have been critical of this policy, arguing that the government should have paid more attention to improving the overall business climate in the city rather than concentrating its efforts supporting a specific industry. Their caution appears to be supported by the recent slump in the auto industry, illustrating the risk of having too many developmental eggs in one industrial basket. Ironically, Matviyenko's desire to create a "Russian Detroit" may have succeeded only in encouraging the region's dependence on an industry currently unable to deliver desired economic growth.

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